

July 31, 2019

VIA EMAIL ONLY

Mr. Timothy Parker, Agent
AllenCo Energy, Inc. (A1240)
2109 Gundry Avenue
Signal Hill, CA 90755-3517
tparker@allencoca.com

Dear Mr. Parker:

DIVISION OF OIL, GAS, AND GEOTHERMAL RESOURCES RESPONSE TO ALLENCO ENERGY, INC. PROPOSAL TO DEPRESSURIZE 21 WELLS AT ITS ST. JAMES DRILL SITE IN THE LAS CIENEGAS OIL FIELD, AND PERFORM IDLE AND UIC WELL MECHANICAL INTEGRITY TESTING

The Division of Oil, Gas, and Geothermal Resources (DOGGR) has reviewed AllenCo Energy, Inc. (AllenCo) letter submitted February 21, 2019. DOGGR agrees with AllenCo's plan to depressurize all 21 wells on its St. James drill site provided the site's fire detection and protection system is fully operational and approved by the City of Los Angeles Fire Department, and AllenCo has received all necessary local, state, and federal approvals to perform such operations.

IDLE WELL TESTING

AllenCo's proposed idle well mechanical integrity testing (MIT) does not comply with new idle well testing requirements effective April 1, 2019. AllenCo's idle well MIT for its St. James drill site wells must conform with the requirements of California Code of Regulations, title 14 (CCR), section 1772.1.1. DOGGR shall be given 24 hours advanced notice before any idle well tests are performed so that it may witness such tests. The following wells are overdue for idle well testing:

- | | |
|------------------------------|--------------------------------|
| • "St. James" 3 (037-06333) | • "St. James" 13 (037-20372) |
| • "St. James" 4 (037-20439) | • "St. James" 14 (037-20609) |
| • "St. James" 6 (037-20275) | • "St. James" 15-1 (037-20194) |
| • "St. James" 7 (037-20476) | • "St. James" 16 (037-20203) |
| • "St. James" 8 (037-20564) | • "St. James" 17 (037-20191) |
| • "St. James" 9 (037-20502) | • "St. James" 18 (037-20308) |
| • "St. James" 10 (037-20455) | • "St. James" 19 (037-20165) |
| • "St. James" 11 (037-05177) | • "St. James" 20 (037-20125) |
| • "St. James" 12 (037-20511) | • "St. James" 21 (037-20628) |

In addition, per CCR section 1772.1.4, an Idle Well Testing Compliance Work Plan was due to DOGGR by June 1, 2019. The CCR requires each oil and gas operator with idle wells to provide

DOGGR with an idle well testing schedule. To avoid potential enforcement action, including issuance of civil penalties, AllenCo must provide its Idle Well Testing Compliance Work Plan no later than September 3, 2019.

UIC WELL TESTING

AllenCo relinquished through letters to DOGGR dated April 2, 2019, its approval to utilize wells St. James 7, 12, 13, and 21 for Class II fluid injection, thereby subjecting them to idle well MIT standards instead of Underground Injection Control (UIC) MIT standards. The remaining wells previously approved for Class II fluid injection are:

- “St. James” 1 (037-20383)
- “St. James” 2 (037-20356)
- “St. James” 5 (037-20475)

Per requirements of CCR section 1724.10.1, AllenCo is overdue in performing UIC “Part One” MIT testing of the casing-tubing annulus for each UIC well listed above. AllenCo may not use those wells for Class II fluid injection until each well successfully passes the “Part One” MIT.

Subsequently, per CCR section 1724.10.2 and the current Project Approval Letter, AllenCo must perform “Part Two” of the MIT within three months after commencing injection to demonstrate there is no upward fluid migration behind the casing, tubing, and packer.

COMPLIANCE

In its December 24, 2018 letter (attached), DOGGR expressed compliance concerns in comments 4, 5, and 6 pertaining to the preventative maintenance program plan, tank testing contractor recommendations, and missing pipeline test data. AllenCo has adequately addressed these concerns in its February 21, 2019 letter, and as such those items are deemed in compliance.

RESUMPTION OF NORMAL PRODUCTION OPERATIONS

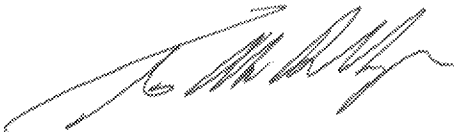
Prior to AllenCo resuming normal production operations at its St. James drill site, all wells must undergo required MIT as described above, and any well failing its MIT must be diagnosed to determine its point of failure. Any well with a MIT failure point at or above Underground Sources of Drinking Water (USDW) must be repaired prior to AllenCo beginning normal production operations. Wells with a failure point below the USDW can be repaired following resumption of normal production operations provided AllenCo complies with a well repair schedule approved by DOGGR prior to beginning production, and those wells with unrepaired failures are not placed on production or injection.

Timothy Parker, AllenCo Energy, LLC
St. James Drill Site Depressurization, and MIT Idle and UIC Wells
July 31, 2019

In addition to the requirements above, AllenCo. must comply with all applicable local, state, and federal laws. The Los Angeles City Attorney's Office will determine what, if any, additional requirements are necessary to comply with the Final Judgment issued by the Los Angeles County Superior Court in The People of the State of California v. AllenCo Energy Inc. case, Case No. BC 532317.

Please notify DOGGR at least 24 hours in advance of any well depressurization activities. Notifications are to be directed to DOGGR's Southern District dispatcher at (562) 637-4400. Questions and other communications should be referred to Tamara Lopez at (562) 637-4400 or email at Tamara.Lopez@conservation.ca.gov.

Sincerely,



Chris McCullough
Environmental, Facilities, and Field Operations Manager

Attachments:

DOGGR Comments on AllenCo's Revised Startup Plan – December 24, 2018

cc: Jessica Brown, City of Los Angeles, Deputy City Attorney
Jessica.Brown@lacity.org

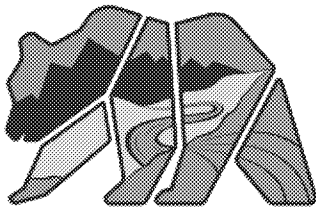
Uduak-Joe Ntuk, City of Los Angeles, Petroleum Administrator
Uduak.Ntuk@lacity.org

Mandi Bane, Los Angeles County Department of Public Health
MBane@ph.lacounty.gov

Jason Marshall, Acting State Oil and Gas Supervisor
Jason.Marshall@conservation.ca.gov

Bill Bartling, Chief Deputy
Bill.Bartling@conservation.ca.gov

Daniel Dudak, Southern District Deputy
Daniel.Dudak@conservation.ca.gov



California

Department of Conservation

Oil, Gas, & Geothermal Resources

Southern District
5816 Corporate Avenue, Suite 100
Cypress, CA 90630

T: (714) 816-6847
F: (714) 816-6853
conservation.ca.gov

December 24, 2018

VIA EMAIL ONLY

Mr. Timothy Parker, Agent
AllenCo Energy, Inc. (A1240)
2109 Gundry Avenue
Signal Hill, CA 90755-3517
tparker@allencoca.com

Dear Mr. Parker:

COMMENTS ON REVISED STARTUP PLAN AND OVERDUE FACILITY TESTING, ST.
JAMES LEASE, 813 WEST 23RD STREET, LOS ANGELES, CA 90007, LAS CIENEGAS OIL
FIELD

The Division of Oil, Gas, and Geothermal Resources (Division) has reviewed the document submitted on September 14, 2018, titled *Answers to DOGGR Questions*, also referred to as Startup Plan, submitted by AllenCo Energy, Inc. (AllenCo). While this document represents an improvement over what was submitted last March, deficiencies remain, and they are listed below. Additionally, even after AllenCo meets the Division's requirements, the Los Angeles City (City) Attorney's Office will ultimately decide if and when operations can resume at the site. This decision will be based on whether AllenCo meets the terms required in the June 3rd, 2016 settlement between AllenCo and the City.

The following comments address remaining deficiencies that have been identified in the submitted plan. These comments relate to issues that are under the direct authority of the Division:

1. The Startup Plan indicates sustained well production will begin prior to the completion of all well testing. This is unacceptable. All well testing consistent with California Code of Regulations, title 14, (CCR) §1723.9, Idle Wells, and CCR §1724.10, Underground Injection Control (UIC), must be completed and approved by the Division *prior* to resuming sustained production or injection in any well. All well operations conducted prior to completion of Division-required testing shall be limited to depressurization of wells and disposal of Class II fluids generated on site. Resumption of normal/sustained well production shall not commence until all required well testing has been completed to the Division's satisfaction, and the operator is in compliance with all applicable laws and requirements.
2. Pursuant to CCR §1723.9, idle well test procedures as outlined in the Startup Plan do not meet the Division's requirements. CCR §1723.9 states in part, "...[a]dditional well

California Department of Conservation

Edmund G. Brown Jr., Governor | David Bunn, Director

ED_005723_00000280-00004

tests or remedial operations may be required if the fluid level is located above or adjacent to freshwater or potential drinking water zones, or as specified by the appropriate Division district deputy..." The Division District Deputy has determined that additional well tests should be undertaken due to the location of the wells in relation to sources of freshwater, their proximity to sensitive receptors, namely schools and residences, and the significant buildup of well shut-in pressures. Specifically, the following idle wells shall be pressure tested:

- "St. James" 3 (037-06333)
- "St. James" 4 (037-20439)
- "St. James" 6 (037-20275)
- "St. James" 8 (037-20564)
- "St. James" 9 (037-20502)
- "St. James" 10 (037-20455)
- "St. James" 11 (037-05177)
- "St. James" 14 (037-20609)
- "St. James" 15-1 (037-20194)
- "St. James" 16 (037-20203)
- "St. James" 17 (037-20191)
- "St. James" 18 (037-20308)
- "St. James" 19 (037-20165)
- "St. James" 20 (037-20125)

The following test requirements shall be met for each idle well:

- a. All idle wells shall be cleaned out to a minimum depth of 25 feet below the uppermost perforation of the lowermost zone.
- b. Test packers shall be set no more than 100 feet above the top production or injection perforation, or in the case of a landed production liner, no more than 100 feet above the production casing shoe.
- c. Minimum sustained idle well liquid test pressure shall be 200 pounds per square inch (psi) at surface.
- d. The Division shall be notified of idle well at least one business day prior to testing.

AllenCo shall describe anticipated action(s) it will take if a well does not pass the idle well casing pressure tests and the anticipated timeframe for taking those actions.

3. UIC procedures as outlined in the Startup Plan do not meet the Division's requirements. Per CCR §1724.10(j)(1) and (2), the following minimum test requirements shall be met for each UIC (injection) well:
 - a. A standard annular pressure test (SAPT) shall be conducted, and approved by the Division, on each injection well prior to its use for injection, but no later than five years after its previously approved test. The test shall be conducted by pressurizing fluid against the intended injection packer, set at the approved depth. The following wells must be tested:
 - "St. James" 1 (037-20383)
 - "St. James" 2 (037-20356)
 - "St. James" 5 (037-20475)
 - "St. James" 7 (037-20476)
 - "St. James" 12 (037-20511)

- "St. James" 13 (037-20372)
 - "St. James" 21 (037-20628)
- b. Minimum SAPT pressure shall be the Maximum Allowable Surface Pressure (MASP) for the respective injection well. If the well is tested at a pressure lower than the MASP, the new MASP shall be no higher than the tested pressure.
 - c. An injection profile survey to test for fluid migration on each UIC well is to be conducted within 3 months of resuming fluid injection.
 - d. Prior to testing, AllenCo may request recession of injection approval for any of its UIC wells it no longer intends to use for water injection. In such cases, the wells subject to injection approval recession must comply with idle well testing requirements under comment 2 above.
 4. The Division's July 5, 2018 letter included an expectation that AllenCo would include, with its submittal of a revised Startup Plan, a copy of its Preventative Maintenance Program Plan. It is unclear if the document titled Preventative Maintenance Program Plan is AllenCo's complete preventative maintenance program as required in CCR §1777(b). If it is, then the following additional items are necessary:
 - a. A schedule of maintenance activities, specifying maintenance frequency for each piece of equipment or component, including safety system components (i.e., cleaning, painting, lubrication, and testing),
 - b. Schedule for assessing maintenance frequency and procedures effectiveness.
 - c. Clarify if tanks and lines are checked for leakage during each tour.
 - d. Specify actions to be taken if wellheads, flowlines, valves, or piping are found leaking.
 5. Tank testing data submitted on September 14, 2018 in compliance with CCR §1773.4 indicates contractor DPSI recommended recoating the external roof of Tank 2. AllenCo has not provided the Division with actions it will take in response to the recommendation.
 6. Pipeline test data for the following flowlines was not submitted and the Division does not have records showing the lines were tested within the last 10 years:
 - "St. James" 7 (037-20476)
 - "St. James" 16 (037-20203)
 - "St. James" 21 (037-20628)

AllenCo shall submit data showing the flowlines above were tested to the minimum standard of CCR Title 8, subchapter 14, Petroleum Safety Orders subsection 6533, for class 2 pipelines. Class 2 pipelines must be tested a minimum of every ten years.

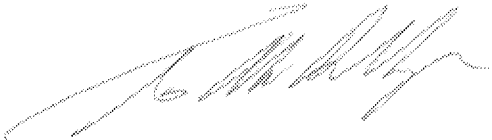
Please provide a revised Startup Plan addressing the above-mentioned comments for Division's review prior to commencing any startup-related activities at the site.

Additionally, please note that subsequent to any approval provided by the Division, the 2016 Final Judgment issued by the Los Angeles County Superior Court requires that several additional steps be taken prior to the restarting operations. To that end, the Division recommends that you consult with the appropriate agencies including the U.S. Environmental Protection Agency, California Environmental Protection Agency, California Department of Industrial Relations, Division of Occupational Safety and Health, California Air Resources

Board, South Coast Air Quality Management Agency, Los Angeles Fire Department, Los Angeles Department of Planning, and the Los Angeles City Attorney. Ultimately, the Los Angeles City Attorney's Office determines what will meet the requirements of the 2016 Final Judgment issued by the Los Angeles County Superior Court.

If you have any questions, please contact Tamara Lopez at (714) 816-6847 or email at Tamara.Lopez@conservation.ca.gov.

Sincerely,



Chris McCullough
Environmental, Facilities, and Field Operations Manager

cc: Eric Witten, Consultant
eric@wittenengineering.com

Uduak-Joe Ntuk, City of Los Angeles, Petroleum Administrator
Uduak.ntuk@lacity.org

Jessica Brown, City of Los Angeles, Deputy City Attorney
Jessica.brown@lacity.org

Matt Baca, Los Angeles County Department of Public Health
MBaca@ph.lacounty.gov

Kenneth A. Harris Jr., State Oil and Gas Supervisor
Ken.Harris@conservation.ca.gov

Bill Bartling, Chief Deputy
Bill.Bartling@conservation.ca.gov

Daniel Dudak, District Deputy
Daniel.Dudak@conservation.ca.gov

John Geroch, Area Operations Manager
John.Geroch@conservation.ca.gov

Scott Walker, Senior Oil and Gas Engineer
Scott.Walker@conservation.ca.gov

Suman Ghosh, Environmental and Facilities Unit Supervisor
Suman.Ghosh@conservation.ca.gov

Wassim Estwani, Idle-Deserted Well Management Unit Supervisor
Wassim.Estwani@consrvation.ca.gov

Tamara Lopez, Area Engineer
Tamara.Lopez@conservation.ca.gov